



# STATE OF NORTH CAROLINA

**EMPLOYMENT SECURITY COMMISSION**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2010**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**EMPLOYMENT SECURITY COMMISSION**  
**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
Members of the North Carolina General Assembly  
Mrs. Lynn R. Holmes, Chairman  
Employment Security Commission

We have completed certain audit procedures at the Employment Security Commission related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2010. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts, and grants applicable to the State's major federal programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Our audit objective was to render an opinion on the State of North Carolina's, and not the Commission's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the Commission and not to the State of North Carolina as a whole.

The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the OMB Circular A-133, these findings are reported in the State's *Single Audit Report*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Mrs. Lynn R. Holmes, Chairman  
and Management of the Employment Security Commission

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2010, we have performed audit procedures at the Employment Security Commission. Our report on the State of North Carolina's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Employment Security Commission included the following:

- CFDA 17.225 - Unemployment Insurance
- Employment Service Cluster
  - CFDA 17.207 - Employment Service / Wagner-Peyser Funded Activities
  - CFDA 17.801 - Disabled Veterans' Outreach Program (DVOP)
  - CFDA 17.804 - Local Veterans' Employment Representative (LVER) Program
- Workforce Investment Act (WIA) Cluster
  - CFDA 17.258 - WIA Adult Program
  - CFDA 17.259 - WIA Youth Activities
  - CFDA 17.260 - WIA Dislocated Workers

The audit results described below are in relation to our audit scope at the Commission and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
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United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

The results of our audit procedures at the Employment Security Commission disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 1, 2, 5, 6, and 7 in the Audit Findings and Responses section of this report.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
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deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we consider the deficiencies described in all findings, except finding 5, in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over compliance, as defined above.

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Commission Chairman Holmes, others within the entity, the Governor, the General Assembly, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Beth A. Wood*

Beth A. Wood, CPA  
State Auditor

March 11, 2011

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## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Federal Compliance Objectives**

#### 1. IMPROPER PAYMENT OF FEDERAL ADDITIONAL COMPENSATION

The Commission did not properly implement changes in the unemployment insurance benefit payment program to ensure federal additional compensation was paid in accordance with requirements in the American Recovery and Reinvestment Act (ARRA). Failure to accurately pay federal additional compensation (FAC) causes the Commission to be out of compliance with federal requirements.

As reported in the prior year, the Commission did not implement programming changes to identify overpayments for FAC payments. As such, no attempts have been made to recover overpayments for FAC as required by the ARRA. The Commission estimated FAC overpayments to be \$1,564,125 for the current fiscal year, which we consider to be questioned costs.

Additionally, an analysis of benefit payments eligible to receive the \$25 FAC payment revealed that 18 claimants did not receive the benefit for one week due to a processing error. This resulted in a total underpayment of \$450. These benefits were paid after our inquiry.

Lastly, the FAC payments were to be phased out such that no new claims filed after May 30, 2010 were eligible for FAC payments. A review of FAC payments after this date identified three weeks of improper payment of FAC, resulting in questioned costs for overpayments of \$75.

Significant aspects of this finding were reported in the prior year.

*Federal Award Information:* Unemployment Insurance - funding from the Federal Unemployment Trust Fund. This finding affects funds administered under the America Recovery and Reinvestment Act.

*Recommendation:* The Commission should implement programming to identify federal additional compensation overpayments and begin recovering those overpayments. Additionally, the Commission should enhance internal controls to ensure payments for federal additional compensation are made in accordance with federal requirements.

*Agency Response:* ESC is engaged in gathering business and technical requirements and has begun initial program design for enhancement of the Unemployment Insurance Benefits Payment system. These enhancements include mechanisms for the identification and recovery of federal additional compensation overpayments. Progress on this effort has been impacted by the requirement to dedicate resources to higher priorities such as the implementation of new benefit tiers, tier extensions and associated modifications to the federal Emergency Unemployment Compensation and Extended

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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Benefits programs. As noted in our previous response to this finding, these enhancements are anticipated to be completed by December 31, 2011.

### **2. DEFICIENCIES NOTED IN UNEMPLOYMENT INSURANCE BENEFIT PROCESSING**

Weaknesses in the unemployment insurance benefits payment system and errors in manual claims processing procedures resulted in overpayments and incomplete eligibility reviews. In a sample of 60 claims, the following seven errors were identified, resulting in total questioned costs of \$24,329:

- The unemployment benefits system was not programmed to ensure second year unemployment benefits were appropriately determined. The problem was identified by federal reviewers and changes were made to the benefit system for claims paid after January 3, 2010. However, we identified four claims prior to that date with the error, which resulted in \$19,611 of inappropriate payments. The Commission should evaluate the impact of potential errors prior to that date and recoup overpayments as necessary.
- Staff failed to key the proper transaction into the benefit system after one individual was determined to be monetarily ineligible. This resulted in \$4,718 in overpayments.
- Eligibility review interviews were not performed for two claimants as required by Commission policy. Interviews are required to be performed periodically on continued claims to ensure that unemployed individuals maintain their continuing eligibility for unemployment benefits while actively seeking work. Subsequent reviews revealed that these claimants were deemed eligible for the benefits received.

Further analysis of unemployment benefit payments revealed additional processing errors as follows:

- The unemployment insurance benefit system did not have an edit check to prevent multiple payments for the same benefit week. Tests for multiple benefit payments per week revealed 163 instances where individuals received duplicate unemployment compensation payments during the fiscal year. This resulted in \$33,888 in overpaid unemployment benefits plus \$4,075 in federal additional compensation payments.
- The start date for 15 claims was reset without performing the required redetermination of the weekly benefit amount, which resulted in all benefit payments for these claimants being made at a higher, incorrect weekly benefit amount. The total overpayment was \$4,442.

The deficiencies noted in both the system and manual processing of unemployment benefit payments increase the risk of ineligible claimants receiving benefits as well as claimants receiving the wrong amount. The total known overpayments of \$66,734 are being questioned.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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Aspects of this finding were reported in the prior year.

*Federal Award Information:* Unemployment Insurance - funding from the State and Federal Unemployment Trust Funds. This finding affects funds administered under the American Recovery and Reinvestment Act.

*Recommendation:* The Commission should strengthen internal controls to ensure unemployment benefit payments are processed and paid properly. Additionally, the Commission should implement appropriate edit checks in the benefit payment system to prevent duplicate payments.

*Agency Response:* The Commission has enhanced internal controls to ensure unemployment insurance benefit payments are processed and paid properly. Also, the Commission is in the process of reprogramming the benefit payment system, which will include edit checks to prevent duplicate payments.

### 3. WEAKNESSES IN GENERAL PROGRAM CHANGE CONTROLS

As reported in the prior year, the Commission does not have adequate standardized program change control policies and procedures nor formal naming conventions in place for programmers. This increases the risk of improper, incomplete, untested, or undocumented changes being made and the inability to identify changes or datasets of a particular system.

The Commission has a draft document to be used by programmers as guidance for initiating, documenting, and gaining approval for program changes, but it is incomplete and has not been implemented. Programmers use program change utilities to a certain extent to track and document program changes. However, there are no set standards for the level and type of detailed information to be included in the change utilities, which leads to inconsistencies in how program changes are documented and processed. Additionally, the Commission does not fully utilize the existing program change and approval tracking functionality of the utilities, but instead relies on a hard copy paper form to track requests from beginning to end. The form is routed through various areas of the user and information system sections and may not always reflect the timeframe a change occurs.

Additionally, the Commission has not adopted a formal naming convention to be used by programmers and other information system staff in naming critical program files, related changes, and data files throughout the organization. Inconsistent application of naming conventions makes it difficult, or nearly impossible, to implement data classification such that only authorized access is assigned to data with sensitive information, such as social security numbers. Inconsistent naming conventions make it impossible to directly link the list of program changes from the initial change request system to the source controls system or to be certain which changes are associated with an individual system.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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The Statewide Information System Security Manual requires state agencies to develop and enforce formal change control procedures that include naming conventions. Without proper procedures, there is an increased risk that improper, incomplete, untested, undocumented, or unauthorized changes could be made to critical systems.

This finding was reported in two prior year reports.

*Federal Award Information:* Unemployment Insurance - funding from the State and Federal Unemployment Trust Fund. This finding affects funds administered under the America Recovery and Reinvestment Act.

*Recommendation:* The Commission should adopt formal program change control policies and procedures, including standardized naming conventions, to ensure that changes are properly documented, tested, and approved. Additionally, the Commission should evaluate functionality of the program change utilities to ensure they are used effectively and consistently.

*Agency Response:* The Commission utilizes change control documentation that has been in place for a significant number of years for both the mainframe and the Web environments. These procedures have been approved by Commission management and are used daily by the staff.

The Commission uses Endeavor for all mainframe management control. Everything except documentation is controlled within Endeavor. Endeavor was adopted by the state Information Technology Services (ITS) as the control tool for mainframe source members. The Commission follows the ITS recommended naming convention for data set names. The vast majority of agency files are in conformance with the ITS RACF/Endeavor naming standard. Commission Systems Programmers worked with developers in late 2009 and early 2010 to explain/train them in the Endeavor naming requirements. New development conforms to the RACF naming conventions. Older applications are corrected during enhancements and/or as time allows.

Both the change control and the naming conventions documents are slated for review. Once that review and any necessary updates are completed, the documents will be reformatted and reissued to conform with the Commission's new Policies and Procedures format and release standards. In the interim, folders for Change Control and Naming Conventions containing the appropriate documents have been created. Access is available to all Information Systems employees.

As noted in our previous response to this finding, this review, update and reissuance process has been approved by Commission management and is anticipated to be completed by December 31, 2011.

#### 4. DEFICIENCIES NOTED IN THE BENEFIT PAYMENT QUALITY CONTROL PROCESS

Controls were not in place to ensure that all cases referred to the benefit payment quality control unit were properly investigated or completed within the required time. These

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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deficiencies increase the risk that potential overpayments due to errors or fraud will go undetected. The following deficiencies were noted:

- There is no evidence of a second or supervisory review of cases to ensure the cases were properly investigated and appropriate action was taken to close the case.
- Documentation is not maintained for all cases by investigators. Documentation is only maintained for cases resulting in prosecution for fraud.
- The Benefits Audit Reporting Tracking System (BARTS) does not provide the necessary aging and tracking reports to sufficiently monitor that cases are assigned, processed, and completed in 90 days in accordance with the Commission's internal policy.

This finding was reported in the prior year.

*Federal Award Information:* Unemployment Insurance - funding from the State and Federal Unemployment Trust Funds. This finding affects funds administered under the American Recovery and Reinvestment Act.

*Recommendation:* The Commission should strengthen controls to ensure that benefit overpayment cases are assigned, monitored, and completed appropriately and in a timely manner. Additionally, enhancements to the tracking system should be made to ensure the necessary reports are available for management to monitor case processing.

*Agency Response:* The Commission will continue to enhance internal controls over the processing of benefit overpayment cases to ensure cases are completed appropriately and in a timely manner. Also, the Commission has developed enhancements to the tracking system which are currently in the testing phase.

### 5. STATE PROCUREMENT POLICIES NOT FOLLOWED

The Employment Security Commission did not comply with statewide procurement policies and regulations when executing a personal service contract for information systems services. The noncompliance increases the risk that contracts for services charged to federal programs will be entered into that are not advantageous and do not achieve the best value for such services.

The Commission established in-house purchase orders for contracts for information systems personal services. The following issues were identified with a contract for information systems personal services that was awarded at a cost of \$156,000 per year:

- a. Contracts have been in place with the individual since 2006. Personal services contracts are to be used on a temporary and occasional basis.
- b. The tasks listed in the contract were not associated with clear deliverables or amounts to be paid. Therefore, it was unclear as to how contract performance could be measured to ensure proper completion of contracted services.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- c. The personal services contract was not reported to the Office of State Budget and Management as required by *North Carolina General Statutes 143-64.70*.

Although the Commission's documents indicate that this was a personal services contract, the contract was with an individual doing business as a corporate entity. Payments were in the name and tax number of the corporation making it unclear if this was a personal services contract or a contract for services. It is important to clearly define the type of contract involved since state information technology procurement regulations require bids for service contracts over \$25,000.

During the audit period, a total of \$66,619 (Employment Services Cluster - \$11,906, Unemployment Insurance - \$54,713) was paid on the contract. Since state procurement policies were not followed in awarding this contract, we question the total amount paid during the fiscal year.

*Federal Award Information:* Employment Services Cluster - CFDA 17.207 - Employment Service/Wagner-Peyser Funded Activities - award numbers ES-17573-08-55-A-37, ES-19214-09-55-A-37, MI-17470-08-60-A-37 and MI-16959-07-60-A-37; and Unemployment Insurance CFDA 17.225 - award numbers UI-18032-09-55-A-37 and UI-19594-10-55-A-37.

*Recommendation:* The Commission should strengthen procedures to ensure appropriate procurement policies are followed and to ensure contracts entered into are in the best interest of the State.

*Agency Response:* The Commission has established procedures to restrict the use of Personal Services Contracts, and to monitor the duration of time an individual is retained for project related services provided under Short Term IT Staffing Contracts, to ensure the contracts are in the best interest of the State. These procedures will provide additional guidance to contract administrators on how to manage IT contracts.

### 6. ERRORS NOTED RELATED TO WORKFORCE INVESTMENT ACT PARTICIPANT TIMESHEETS

Case managers in the Workforce Investment Act program did not properly verify participants' timesheets for accuracy and payments were not always supported by timesheets. This condition increases the risk that participants' will be over or under paid. The Commission spent \$913,479 for participant wages during the fiscal year.

A test of 60 participants' time records and payments from the Wage Payment System revealed 11 errors as follows:

- a. Four participants were missing timesheets to support weeks paid. The participants were paid a total of \$2,213.
- b. One participant was paid twice for the same week. This resulted in an overpayment of \$522.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- c. Three participants were not paid for the total hours reported on approved time sheets. This resulted in total underpayments of \$696.
- d. One participant was paid for 42 hours; however, the approved timesheet showed the participant only worked 40 hours. This resulted in an overpayment of \$15.
- e. One participant was paid \$39 for work after the termination date of the worksite agreement. Additionally, this same participant was paid for 32 hours one week, but the timesheet showed the participant actually worked 32.5 hours, resulting in an underpayment of \$4. This participant had a net overpayment of \$35.
- f. One participant had seven weeks of timesheets that were not approved by the worksite supervisor as required by the worksite agreement, but were signed by the local office Workforce Investment Act specialist. Therefore, no costs are questioned.

According to the Work Experience Worksite Agreement, accurate timesheets should be kept for each participant and the timesheet should be signed by the participant and the supervisor, which certifies its accuracy. Additionally, the local employment office case manager is required to review and approve timesheets before submitting them for payment.

The total amount overpaid or undocumented was \$2,785 and the amount underpaid was \$696. Since it is likely that the questioned costs in the population will exceed \$10,000, the \$2,785 (17.258 WIA Adult Program - \$800, 17.259 WIA Youth Activities - \$900, and 17.260 WIA Dislocated Workers - \$1,085) overpayments are considered questioned costs.

*Federal Award Information:* Workforce Investment Act Cluster pass-through funding from Local Workforce Investment Boards through contracts with local employment security offices. Specifically, Local Board contract numbers: 08-4020-44-9900 and 09-2020-44-9900 with Lumber River; 08-4030-28-9900 with Region Q; and 08-4030-45-9900 and 08-4040-45-9900 with Mid Carolina.

*Recommendation:* The Commission should strengthen procedures to ensure participants' timesheets are verified for accuracy prior to approval and payment.

*Agency Response:* The Workforce Development Unit (WDU) staff reviewed present policies and procedures for verifying the accuracy of participant timesheets prior to approval for payment with Local ESC/WIA Case Managers in a statewide WIA training sessions during July 2010. WDU staff also implemented quarterly technical assistance and program monitoring visits during this period to enhance program operations. These corrective action measures were shared with State Audit staff during the Exit Conference, although this year's audit sample overlapped the above corrective actions.

The Commission will continue emphasis on accurate participant time sheets. WIA Youth Activities was a one-time program not expected to be repeated.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 7. INSUFFICIENT DOCUMENTATION NOTED IN WORKFORCE INVESTMENT ACT CASE FILES

The Workforce Investment Act (WIA) case files did not contain sufficient or appropriate documentation to provide evidence of eligibility. This condition increases the risk that services will be provided to ineligible individuals.

Our tests of 60 participants' case files revealed the following:

- There was insufficient documentation to support the barriers to employment criteria as required by the WIA Application Guide for three participants. These ineligible participants received \$4,830 in WIA services during the fiscal year. Since it is likely that the questioned costs in the population will exceed \$10,000, the total amount of \$4,830 is questioned.
- Eligibility documentation in the case file did not support the eligibility status reported for 13 participants. Documentation issues included (1) documentation was inconsistent with data on the intake assessment form, (2) the incorrect barrier to employment verification form was used, or (3) the intake assessment form was not completed. By reviewing information outside the case file, we determined that the participants were eligible for WIA services. The WIA Application Guide requires that documentation be obtained and maintained that provides proof of the eligibility status.

*Federal Award Information:* Workforce Investment Act Cluster pass-through funding from Local Workforce Investment Boards through contracts with local employment security offices. Specifically, Local Board contract numbers: 08-2030-36-9900 and 08-4030-36-9900 with Centralina; 08-4030-55-9900, 09-2020-55-9900 and 09-2030-55-9900 with Southwestern; 09-2030-37-9900 with Charlotte; 08-4030-28-9900 and 09-2020-28-9900 with Region Q; 08-4030-43-9900 with Kerr Tar; 08-4020-44-9900 and 08-4030-44-9900 with Lumber River; and 09-4030-40-9900 with Eastern Carolina.

*Recommendation:* The Commission should strengthen policies and procedures to ensure proper documentation is obtained and maintained in participants' case files to support eligibility and allowance for service costs.

*Agency Response:* The Workforce Development Unit (WDU) staff reviewed appropriate eligibility documentation and participant file maintenance with Local ESC/WIA Case Managers during statewide training sessions in July 2010. Since policies and procedures are in place, this training session was the opportunity to enhance the knowledge of Local ESC/WIA Case Managers. In addition, periodic monitoring reviews are provided to WIA Program staff as well as ESC Managers. This procedure was shared at the ESC Audit Exit Conference.

The Commission will continue emphasis on proper documentation of eligibility for WIA participants.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 8. CONTROL WEAKNESSES OVER EQUIPMENT INVENTORY

Deficiencies were noted in the Commission's control procedures over equipment purchased with Wagner-Peyser grant funds, resulting in an increased risk that assets will not be properly maintained or safeguarded.

Testing of the physical inventory revealed the following internal control weaknesses related to maintaining proper records and safeguarding of assets:

- The records for 13 assets purchased with federal funds did not identify the percentage of federal participation in the cost.
- The inventory database listed 25 assets as being assigned to an invalid cost center rather than the appropriate cost center associated with surplus assets.
- One asset was classified as missing during the annual physical inventory; however, it was found to be in the vendor's warehouse after our audit inquiries. The Commission did not have procedures in place to account for assets stored by the vendor.

A similar finding has been reported in previous years.

*Federal Award Information:* Employment Services Cluster - CFDA 17.207 - Employment Service/Wagner-Peyser Funded Activities - award numbers ES-17573-08-55-A-37 and ES-19214-09-55-A-37.

*Recommendation:* The Commission should implement adequate controls and procedures related to the accounting for equipment inventory items to ensure proper records are maintained and assets are safeguarded against misappropriation or theft.

*Agency Response:* The Commission has reviewed the control weaknesses cited in the finding, has made most of the appropriate corrections to the inventory control system, and anticipate completion by June 30, 2011. The Commission will continue to enhance internal control over reporting to ensure expenditures are properly reported.

### 9. DEFICIENCIES IN EMPLOYMENT SERVICES CLUSTER REPORTING

Controls over federal financial reporting were not sufficient to ensure expenditures were properly reported and reports were prepared in accordance with federal guidelines. Errors in the reports reduce the usefulness of the data to the users and resulted in noncompliance with federal report preparation guidelines.

Two of the quarterly SF-425 Federal Financial Reports did not agree to the underlying accounting records. The Commission failed to separately report the federal share of unliquidated obligations, but instead included the unliquidated obligation amount in the federal share of expenditures line. The December and March quarterly reports overstated expenditures by \$48 and \$455, respectively.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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The December and June quarterly American Recovery and Reinvestment Act Section 1512 reports incorrectly reported the cumulative amount of expenditures to vendors receiving less than \$25,000 per award. The December quarter cumulative expenditures were overstated by \$2,386, while the June 2010 quarter was understated by \$15,951. Additionally, the number of jobs created were miscalculated and therefore under reported.

*Federal Award Information:* Employment Services Cluster - CFDA 17.207 - Employment Service/Wagner-Peyser Funded Activities - award numbers ES-17573-08-55-A-37 and ES-19214-09-55-A-37; and CFDA 17.801 and CFDA 17.804 - award number DV-19657-10-55-5-37.

*Recommendation:* The Commission should enhance internal controls over reporting to ensure expenditures are properly reported and reports are prepared in accordance with federal guidelines.

*Agency Response:* The Commission is reviewing internal controls to ensure expenditures are reported correctly and reports are prepared according to federal guidelines.

Employment Services will prepare an Interoffice Memorandum for dissemination to ES staff to ensure that all ARRA job orders are correctly identified for reporting purposes by selecting the appropriate job source code.

Employment Services has also met with staff from the Information Systems Division to prepare a corrected report of ARRA job orders created.

## **ORDERING INFORMATION**

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